Executive summary

The Indian economy has been catching up quickly in the past two decades, and weathered the global recession well, with only a limited and short-lived slowdown. In just over 11 years, income per capita has doubled. Wide-ranging reforms and increased investment have lifted potential growth to almost 9%, the highest in Indian history, helped by improvements in infrastructure. Inclusive growth of 10% per year is feasible given that demographic developments are set to push up saving, but will only be achieved if the administrative and regulatory barriers facing companies are reduced. In addition, the government should step up efforts to restructure public expenditure; reduce the fiscal deficit; relax some of the constraints facing the financial sector and further promote international integration. In the near term, the authorities need to remain vigilant against the risks of high inflation and volatile capital flows.

Sustaining higher growth. *Administrative burdens have held back the expansion of private firms and these impediments need to be eased. Public-sector governance should be made more transparent and accountable by separating operational and regulatory functions in the provision of public services and by strengthening the anti-corruption agency through an independent appointment mechanism for its head. Further reductions in trade and foreign direct investment barriers are also needed. Infrastructure is showing good progress in those sectors that benefit from private sector involvement, but serious bottlenecks persist elsewhere. To provide greater clarity for infrastructure investors, a better framework for land transactions should be put in place.*

Improving fiscal policy and outcomes. *The length and depth of the downturn were limited by the fiscal easing made possible by the consolidation achieved in earlier years. Continuing large deficits, however, would be a major drain on national saving and thus a drag on investment and growth. Therefore, the government resumed fiscal consolidation in 2010 and more is planned for 2011. The government needs to ensure subsidies stemming from higher world oil prices do not throw these plans off course. A binding medium-term framework is also needed, presenting the budget on a rolling three-year basis and with rules to limit deficit spending. An independent fiscal monitoring agency, reporting to the legislature, might strengthen fiscal discipline. The government is pushing ahead with reforms to direct taxation, broadening the base and reducing the rates, which should improve compliance. The proposed goods and services tax is an important reform, and its coverage should be as broad as possible to minimise distortions.*

Making growth more inclusive. *Poverty rates continue to fall but remain high in spite of strong growth: making growth more inclusive is, therefore, a top government priority. The introduction of the national rural employment guarantee has helped. However, only seven governments in the world spend less on health than India (as a per cent of GDP). As well as resulting in poor health outcomes, this low level of spending is a major cause of poverty. Government spending is higher in other areas aimed at lowering poverty, such as subsidisation of kerosene, liquefied petroleum gas and fertilisers. However, a large part of such outlays do not reach the poor. The challenge is thus to make overall public spending far more focused on inclusion. Reforms are scheduled to be introduced in this respect, notably concerning the introduction of cash transfers to the* *poor to replace the above subsidies, relying on the forthcoming Universal Identity Card to reduce leakages. This reform could be extended to replace other subsidies. Moreover, more widespread use of cash transfers conditional on participation in health and education programmes could boost outcomes in these areas.*

Continuing with financial sector reform. *India's financial sector proved resilient in the face of the global crisis. Most banks should be able to meet Basel III regulations, although a small number of state-owned banks will continue to need capital injections, which could be best done via sales of shares. The government is committed to further financial reforms to deepen the financial system and improve access. The entry of new privately-owned banks has heightened competition in the sector and yielded efficiency gains. Granting more banking licences would help in this regard. Reforms are called for to ease wide-ranging and highly prescriptive operating constraints faced by the financial sector for lending, portfolio management and branch location. Regulation needs to be unified for asset managers and strengthened in the case of the very weak co-operative banks.*

Improving education access and quality. *Enrolment and literacy are improving and the 2009 Right to Education Act should help to speed up progress towards universal elementary education. However, high drop-out rates, low student attendance and teacher absence remain severe problems, holding back educational achievements. Greater local participation and accountability are part of the solution. The private sector accounts for a rising share of enrolment and policies are needed to ensure better access for the poor. Teacher effectiveness in the public sector ought to be enhanced through better accountability, incentives and development pathways. Increasing teacher resources can help lift quality but should be done in the most cost-effective manner. The strength of India's growth also depends on improving higher education. Some Indian tertiary education institutions compare favourably in international rankings but on the whole many graduates are inadequately trained for the workforce. Regulation is often ineffective, restricting choice and hampering entry and innovation. Institutions ought to be granted greater autonomy, quality assessment should be strengthened and a higher proportion of funding tied to outcomes. Faculty shortages highlight the need to ensure sufficient growth in the academic workforce.*

From:
OECD Economic Surveys: India 2011

Access the complete publication at:
https://doi.org/10.1787/eco_surveys-ind-2011-en

Please cite this chapter as:

OECD (2011), “Executive summary”, in *OECD Economic Surveys: India 2011*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-ind-2011-2-en